

**CALENDAR ITEM
C47**

A 8, 10, 15, 17

02/02/2004
PRC 714.1
PRC 8430.1
J. Planck

S 4, 5, 7

**CONSIDER ACCEPTANCE OF THE FULL QUITCLAIM OF
NEGOTIATED SUBSURFACE (NO SURFACE USE)
OIL AND GAS LEASE NO. PRC 714.1
(350 ACRES UNDER THE GEORGIANA SLOUGH AND THE
NORTH FORK OF THE MOKELUMNE RIVER),
SACRAMENTO AND SAN JOAQUIN COUNTIES**

LESSEE:

Towne Exploration Company, a California Limited Partnership
Attn: Mr. Edward B. Towne
582 Market Street, Suite 1500
San Francisco, CA 94104

AREA, LAND TYPE, AND LOCATION:

At the time of issuance, Oil and Gas Lease No. PRC 714.1 contained approximately 350 acres of tide and submerged lands in the vicinity of the Georgiana Slough and the North Fork of the Mokelumne River, Sacramento and San Joaquin Counties, California. As the result of the unitization and subsequent assignment of a portion of the leased lands, PRC 714.1 currently contains approximately 323 acres of tide and submerged lands.

BACKGROUND:

Oil and Gas Lease No. PRC 714.1 (Lease) was issued to Brazos Oil Company on April 18, 1952, and contains approximately 350 acres of tide and submerged lands in the bed and vicinity of Georgiana Slough in Sacramento County and the Mokelumne River in San Joaquin County, California (see Exhibit A, attached hereto). Through a series of approved assignments, the present lessee is Towne Exploration Company, a California Limited Partnership (Towne).

Lease Paragraph 5 permits the lessee to make a written quitclaim of all rights under the lease or of any portion of the leased lands. The quitclaim will be

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effective when it is filed with the State subject to the continued compliance with all applicable laws and lease provisions, and the continued obligation of the lessee and its surety to pay all accrued rentals and royalties.

On October 18, 2003, the Commission's Long Beach staff received the document "Quitclaim Deed for State Oil and Gas Lease." This document was dated October 10, 2003, and quitclaims back to the State all of the lessee's right, title and interest in the leased lands described therein, of Oil and Gas Lease No. PRC 714.1 dated April 18, 1952. After staff review, staff requested and received an amended quitclaim deed to replace, but to be effective as if received on the same date as the original quitclaim deed. The amended quitclaim deed is attached hereto as Exhibit B.

A review of the Commission's files reveals that no default exists on the Lease, that the lessee has complied with all applicable laws and Lease provisions and has paid all royalties and rentals. No wells are drilled on or into the State's lands. Towne will be retaining one or more oil and gas leases covering privately owned lands in the vicinity of the State lands to which the quitclaim applies. Towne has represented to staff that it will seek a new lease with the State, and include the newly leased State lands in a unit where appropriate, if it makes any new discoveries of oil or gas where production will drain State lands Towne is the operator of one well located on the oil and gas leases it will be retaining on privately owned land. Towne is currently producing a minimum amount of natural gas from the Annie D. Ganahl #1 well (API No. 06700230) located on the privately owned lands. A portion of the production from this well was allocated to the State for royalty payment under PRC 714.1. Notwithstanding the surrender of State lease, Towne has submitted a written stipulation that its obligation to pay royalty as provided in the lease on any produced gas from this well shall survive this surrender of lease as an accrued obligation under the lease for as long as said well continues to produce.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code, Division 6, Part 2, and Lease Paragraph 5.

OTHER PERTINENT INFORMATION:

1. On August 26, 1997, the Commission consented to the pooling of a 13.041-acre portion of the lands covered by PRC 714.1 into the "Furth 1-15" Unit, and on December 8, 1998, the Commission consented to the pooling of a 14.1-acre portion of the lands covered by PRC 714.1 into the

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“Mello 1-10” Unit. The prior lessee and operator of PRC 714.1 and these Units, OXY Resources California Inc., assigned these Units to Jim Graham. The Commission approved the assignment on November 26, 2001. Those severed Units were assigned a new PRC number, being PRC 8430.1, and are not subject to this quitclaim. As the result of the foregoing units and the assignment approved by the Commission on November 26, 2001, PRC 714.1 was reduced in size from approximately 350 acres to approximately 323 acres.

2. Pursuant to the Commission’s delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a “project” as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

EXHIBITS:

- A. Location Map
- B. Quitclaim Deed with Legal Description

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

1. ACCEPT FROM TOWNE EXPLORATION COMPANY, A CALIFORNIA LIMITED PARTNERSHIP (LESSEE) THE QUITCLAIM DEED FOR OIL

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AND GAS LEASE DATED OCTOBER 10, 2003, WHEREIN THE LESSEE QUITCLAIMS BACK TO THE STATE ALL OF ITS RIGHT, TITLE AND INTEREST IN THE LEASED LANDS DESCRIBED IN EXHIBIT A, ATTACHED HERETO, OF OIL AND GAS LEASE NO. PRC 714.1, DATED APRIL 18, 1952.

2. RELEASE TOWNE EXPLORATION COMPANY FROM ALL OBLIGATIONS UNDER OIL AND GAS NO. LEASE PRC 714.1 ACCRUING AFTER OCTOBER 18, 2003, THE FILING DATE OF THE QUITCLAIM DEED EXCEPT AS TO ACCRUED OBLIGATIONS THEREUNDER, INCLUDING THE PAYMENT OF ROYALTY ON FUTURE PRODUCTION, IF ANY, FROM THE "ANNIE D. GANAHL #1 WELL".
3. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.